UNITED STATES DEPARTMENT OF AGRICULTURE
Bureau of Agricultural Economics

AGRICULTURAL OUTLOOK

Address by O. C. Stine, Assistant Chief, Prices, Income, and Marketing, Bureau of Agricultural Economics, U. S. Department of Agriculture, at the 27th Annual Agricultural Outlook Conference, Washington 25, D. C., October 31, 1949.

The demand for the farm products of the United States now seems likely to continue on a high level through 1950. However, the maintenance of the present high level of production will result in some further reduction in the prices received for farm products. Cut backs in production to avoid accumulating surpluses in some cases will result in some further reduction in income. The prices that farmers pay for goods and services used in production probably will decline less than the prices received for products, and this will result in the net income to farmers being reduced more than the decline in the receipts from marketings. The average of the prices of all farm products may fall below the parity level for the first time since 1941. The average net income of farm workers probably will be reduced below the 1910-14 relationship to the earnings of industrial workers, and the net income of farm operators may be cut back to about the level of 1945.

Price readjustments from a war and postwar inflation seem likely to continue for sometime except as interrupted by unusual or abnormal developments such as short crops at home or abroad and international developments again materially increasing the demand for farm products. Most of the sharp postwar rise in the prices of farm products has been lost. The peak of the advance was reached at the beginning of 1948, when the average of prices received was 307 percent of the base period 1909-14. From that peak, prices have declined nearly 20 percent and are now back to about the level of July 1946. This decline has been cushioned by price supports. The sharp and great depression of 1920-21 has been avoided. Between May 1920 and 1921, the average of farm prices was reduced 50 percent. We have had two sharp adjustments--the first early in 1948 and the second in the spring of 1949. Further downward adjustments may continue for some products through the next two years before reaching a firm base in line with the prices of other products and the more normal demand for farm products. Perhaps the prices of some farm products have already touched base, but it is obvious that some of them are still above. It is now difficult to determine what would be a firm base for some farm products such as wheat and cotton. For such products, the determination of a firm base awaits the reestablishment of international trading on a world free market basis.

Prices that farmers pay for goods and services used in living and in production have also turned downward, but slowly. These prices are determined largely by the course of prices of non-agricultural products. They adjust much more slowly than the prices of farm products to changes in

economic conditions. The downward adjustment in the index to date has been primarily on account of the processed products of the farm, mainly feedstuffs. Only very moderate adjustments have been made in the prices farmers pay for non-farm products. Since the war and postwar advance in these prices has not been so very great, since industrial wage rates are a very important factor in the prices of these goods and services, and since industrial wage rates have been increased to a high level and are to be maintained at this high level, only moderate further reductions are to be expected. In other words, parity prices for next year may not decline much below the present level.

This parity index is likely to be modified to some extent by revisions now in process. The introduction of wages for hired workers probably will add a few points. This may offset declines in prices of goods purchased so that the general level of the revised index in 1950 is not likely to be changed very much from the present level.

Agricultural production for sale and home use is at a record level. For 1949, it is now estimated at 138 percent of prewar which is equal to the level of 1948 and 1 percent above the high wartime level of 1944. The high level of production in the last two years has been due in part to abnormally high yields. Average crop yields, with some reductions of acreage on account of lower prices and reduced acreage allotments, would result in lower crop production for next year, but abundant feed supplies are encouraging increased livestock production. Thus, total agricultural production in 1950 is likely to be held close to current high levels.

The peak of receipts from marketing farm products was reached in 1948. This was the result of a combination of peak production and a record level of farm prices. In 1949, the same volume of production is being marketed but at prices averaging about 10 percent lower. Thus, the receipts from marketings are being reduced about 10 percent. Heavier livestock production in 1950 probably will result in lower average prices, and this, together with the reduced marketings of crops at the same or lower prices, will again reduce receipts from the marketings of farm products. Government payments may be increased moderately, but the gross farm income is likely to be reduced again by about 10 percent.

Farm expenditures probably will not be reduced as much as gross income and, consequently, net income from agriculture again will be reduced more than prices and more than gross income. The realized net income of farmers reached a peak--nearly $18 billion--in 1947. In 1948, production expenses increased more than gross income and net income was reduced by about 5 percent or $1 billion. In 1949, production expenses were reduced by some decline in prices, but by less than 5 percent. The net income for 1949 is now estimated at about $14 billion, a further reduction of more than $2 billion or about 15 percent. There may be some further reduction in production expenses next year by some reduction in the wages of hired labor and in the prices of some of the goods that farmers buy, but again the total expenditures may be reduced by less than 5 percent. The result would be a reduction in net income by more than 10 percent. If this is realized, the net reduction from the peak of 1947 would be about $6 billion or 30 percent

in three years. However, even at this level, the net income for 1950 would be more than double the prewar average level and about equal to the average of the war years.

The declining net income of farm operators is being reflected in declining land values. The decline to date is moderate, but further downward adjustments are to be expected as prices and incomes decline. However, farmers generally are in a sound position. They have well-equipped, productive farms and are not heavily in debt. In fact, the farm community as a whole has liquid assets sufficient to pay off all debts.

Let us take a look at some of the important items of farm expenditure. The farm wage bill is one of the most important items of expenditure on commercial farms. Farm wage rates have advanced to a very high level--about four times the prewar level. Moderate declines have been registered in recent months. This decline is influenced by some increase in unemployment and the declining prices of farm products. Following the First World War, there was a sharp drop in farm wage rates. The reduction in farm income will tend to discourage the employment of hired labor unless wages are reduced. The availability of farm labor at reduced rates will depend largely upon industrial employment. Some reduction in farm wage rates appears to be inevitable. Taxes and carrying charges on debt are increasing.

The use of fertilizer has increased at a rapid rate since the low point in the depression of 1932. Undoubtedly, the great increase in the use of fertilizers has been an important factor in increasing agricultural production and maintaining it at a high level in recent years. Prices have advanced moderately in comparison with the prices of other commodities, but farmers have sometimes found it difficult to obtain all the fertilizers they wanted to use. The supply outlook is now better than it has been for some years. However, the demand for fertilizer may maintain prices and the actual expenditure on this item for 1950 may be maintained at or even above the level of recent years.

Expenditures on farm machinery and equipment are very important items in the farmer's budget. Mechanization has developed at a rapid rate through the war and postwar years. Farmers have purchased many items of new machinery as rapidly as they could be produced. The costs of operating and maintaining these machines have risen but not nearly as rapidly as the expenditures upon new equipment. The high level of expenditures on account of the operations and maintenance of farm machinery and equipment probably will continue through 1950. Considering the number of years in which the purchases of new machinery and equipment have exceeded replacement requirements, it is obvious that farmers are generally quite well-equipped. These purchases have been associated most of the time with rising income and increasing labor costs. But now farmers are experiencing reductions in income and in wage costs. It seems reasonable to expect that under these conditions there will be some reduction in the purchases of new farm machinery and equipment.

Let us not forget that about one-half of the farm expenditures involved in the parity index is for goods and services used for living on the farm. The cost of living on the farm has declined moderately and some further

reduction is in prospect. The prices that farmers pay for food purchased, for clothing, and for a few other items used in the home, have declined and have reduced the index about 5 percent from the peak reached in 1948. Only moderate further declines are now in prospect. The cost of living on the farm is not being reduced nearly as rapidly as the net income of farmers, and this will exercise pressure against the use of funds for new construction and new machinery.

The inter-relation between agriculture and industry in the national economy is commonly recognized. As long as workers are free to shift from agriculture to industry, there will be a tendency for labor and the use of resources to shift from agriculture to industry when industrial incomes are relatively high, and to return to agriculture in a depression or when agricultural earnings are relatively high. I think the best indication of parity income is recorded in the relation of the average annual earnings of employed industrial workers to the average income from agriculture per person working on the farm. From 1945 to 1948, agricultural earnings have been high in relation to earnings in industry--not high in dollars, always lower--but high in relation to prewar averages. Under those conditions, farmers were willing to pay relatively high wages. The turn in this relationship has come in 1949. Industrial wage earnings have continued upward, but farm wage earnings have turned downward. The minimum wage legislation provides continued support for high wage earnings for the employed industrial workers. While there is no such direct support for farm wage rates, the support program will contribute to some extent towards maintaining the income of workers engaged in agriculture.

The level of national employment is an important factor in the agricultural situation and prospects. In the war period, there was overemployment which resulted in great scarcity of farm labor. The readjustment in employment to a more normal relation to the total population has eased the farm labor situation. As unemployment increases as it has in recent months, some industrial workers are released to return to the farm to provide more labor and at lower wage rates. However, we must look at this labor situation from another standpoint and that is the effect upon the demand for farm products. A high level of employment at high wage rates maintains purchasing power. Unemployment reduces purchasing power. The purchasing power will depend upon total wage payments, plus unemployment insurance for those who are out of work. Social security provides a shock absorber against such severe depressions as we had in 1921 and 1931-32, just as price supports tend to reduce the shock of postwar adjustments in agriculture.

The demand for farm products in the United States depends primarily upon the disposable income of the people within the country and how they choose to spend the money. Total personal income is now more than double prewar. A higher percentage is taken for taxes--about 10 percent as compared with the prewar average of 4 percent. A larger proportion also is being saved. In the war period savings were at a record level. Following the war, as goods and services became more abundant, expenditures were increased and savings reduced, but they are still relatively high. The annual savings per person are more than double the prewar average and a

higher percentage of income. Non-food expenditures have increased sharply since the war as larger supplies of goods became available for civilian use. Food expenditures are relatively stable. The actual expenditures for food advanced with increasing income, taking a little more than 20 percent each year. At the highest price point in 1948, food took only 28 percent and now 27 percent of the consumer's income. In fact, if consumers were purchasing the same foods and in the same quantities as before the war, they would be spending a smaller proportion of their income for food. They would be spending only 19 percent for food in 1949, as compared with the prewar average of 23 percent.

The decline in percentage of disposable income for food is significant to farmers in that it indicates that consumers are choosing to economize on food. This is and will continue to be a factor in the price declines of some farm products.

Another important factor in reducing prices to producers is the increasing costs of distribution. Increased transportation rates, higher wages, and other charges, have increased greatly marketing costs and reduced the farmer's share of what the consumer pays. The result is to maintain and in some cases increase food prices to consumers, while the farmer is taking a cut in prices and income. This process reduces the effective demand for farm products and will continue through the period of postwar adjustments.

What of the more distant future? The growth of the population and the advance in wage levels will probably maintain personal income at levels more than double prewar. Following the First World War, the national income was about double the prewar level and advanced until the depression of the thirties. A deep cyclical depression could materially reduce the national income below present levels for a short period, but it is not likely to be cut back close to prewar levels.

At this point, let's take a look at population trends. The number of consumers in this country is increasing more than 1 percent per year. The population has increased 15 percent since the outbreak of the war. The population of the continental United States is now about 150 million and by 1960 it may be 170 million. This is a very important factor in the longer time outlook for agriculture.

If the growing population proportionately increases the demand for agricultural products, the purchasing power per person must be maintained. In the past, national income has increased more than the growth of population.

Let me add a few observations as to the foreign market outlook. Foreign agricultural production outside of the Soviet area is now near to prewar levels, but greater than prewar production is now necessary to provide prewar consumption. Agricultural production in western Europe, our most important foreign market area, has recovered to about 90 percent of the prewar average. However, to provide the prewar proportion of domestically produced foods, it would be necessary for these countries to increase their production over the prewar levels by about 15 percent by 1953.

Before the war, the western European countries were generally engaged in trying to maintain the highest possible degree of self-sufficiency. Production of the most essential foodstuffs was encouraged, and imports discouraged. However, in spite of all their efforts, it was necessary to import about one-third of the foodstuffs consumed.

Here is a population of about 250 million to be fed and increasing at the rate of about 1 percent per year.

The United Kingdom depended upon overseas sources for more than one-half of the supplies consumed. In the war period and the years immediately following, consumption has been restricted by limitations upon imports and rationing. The present prospect is that western Germany, after recovery from war conditions, also will be dependent upon outside sources for about 50 percent of the food supplies needed in that country. Reconstruction programs provide for some increase in production above the prewar levels. It does not seem likely that these countries will be able to achieve a diet comparable to prewar without increasing imports of foodstuffs.

Undoubtedly, agricultural production can be increased in western Europe. The most significant contribution to increasing the available supplies of foodstuffs could be made through displacing horsepower with tractors. Combining some small holdings, using more fertilizer, and extending technological improvements could make significant additional contributions to the domestic food supply. In most countries, however, the increasing production is likely to be at only a moderate rate and hardly likely to keep up with the increasing population.

The utilization of agricultural resources in western Europe could be improved greatly by the elimination of trade barriers among the several countries and the abandonment of special efforts at uneconomic production within national boundaries. The development of regional specialization and the use of resources generally, for production in accordance with the comparative advantages, would greatly increase the efficiency of production. Agriculture would be established upon a sounder basis and diets could be improved. A freer importation of bread grains, feedstuffs, and fats and oils, would provide the basis for lower costs of living and allow the shift of resources to the production of larger volumes of fresh fruits, vegetables, and livestock products. Under these conditions, western Europe would take larger quantities of farm products from the United States, Canada, Australia, New Zealand, and the tropical areas.

The question naturally arises, What about trade between western and eastern Europe? The answer obviously is that the future of exchanges between these two areas depends primarily upon Russia. Today, there is no dependable prospect for western Europe to receive any significant volume of agricultural products from eastern Europe, nor for sales of industrial products to eastern Europe to pay for the imports. The area controlled by Russia is large and contains very extensive and diverse natural resources. A reasonable expectation following the First World War was that Russia would return to the export of grain, but the Russian system of production and trade did not develop surplus production. The extension of the system to the Balkans and Poland may have similar results.

Production in tropical areas is recovering at a fairly rapid rate. Large volumes of fats and oils and sugar are to be expected from the East Indies. Manchuria is under the control of Russia and the exports of large volumes of soybeans may not appear again. The degree and character of trade in China is now, of course, very uncertain. For the immediate future, we can be confident only of some further recovery in production and trade in the Oriental areas outside of China and Manchuria.

Devaluation of currencies in the sterling areas prepares the way for relaxation of restrictions upon international trade in farm products. The immediate effect is not very significant as both the prices and the volume of trade in most farm products are now controlled by contracts or other special arrangements. The prices of wheat, cotton, and tobacco are practically fixed by a price support program. The wheat export price is fixed by the International Wheat Agreement in terms of Canadian dollars before devaluation. Exports at the maximum agreement right now involve a subsidy of more than 40 cents a bushel. The volume of exports will be determined primarily by the needs of importing countries. The exports of tobacco are not likely to be affected significantly because the import duties and excise taxes collected from tobacco are important sources of revenue to the importing countries. The purchases of American cotton will be determined primarily by the volume of cotton consumption in the several importing countries, and this without much regard to the price of the raw cottons because of the ECA financing of these purchases. These three items--wheat, tobacco, and cotton--constitute the bulk of our agricultural exports. The exports of other products, including fats and oils and fruits, have been reduced by restrictions of the importing countries in protection of their currencies. Devaluation may result in some relaxation of such restrictions and some increase in purchases of such products from the United States.

In a free market, devaluation would result in higher prices and reduced consumption of products from the United States, and lower dollar prices with increased shipments of products to the United States. The long run effect of this adjustment would be a downward pressure of prices of farm products in the United States. However, various exchange regulations and restrictions upon imports were already in effect operating in this direction. If devaluation succeeds in providing the basis for free convertibility of exchanges, and this is accomplished by the elimination of special contracts and restrictions, the level of international trade and the demand for many farm products may rise. This would check the deflationary pressure upon the farm products of the United States. In the long run, a free exchange of goods and services in terms of convertible currencies would be a great improvement over trade diverted and restricted to protect dollar balances.

Finally, looking beyond 1950, it is to be noted that the population of the United States is increasing at the rate of more than 1 percent per year. Foreign countries are likely to continue to need a considerable volume of some of the agricultural products of the United States. Therefore, the demand for agricultural products of the United States is likely to be maintained at a high level after the postwar adjustments have been completed. It is to be hoped that the cooperating nations will succeed in developing an expanding international economy that will provide an expanding market and maintain the demand for agricultural products, thus avoiding in the next 25 years the sharp and deep depressions following the First World War.

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THE OUTLOOK FOR UNITED STATES AGRICULTURAL EXPORTS

Address by J. H. Richter, Head, European Division, Office of Foreign Agricultural Relations, at the 27th Annual Agricultural Outlook Conference, Washington, D. C., October 31, 1949

The large agricultural exports by the United States since the war have depended to a very high degree upon the financial aid which this country extends to foreign nations. Since there is no prospect for an easing of the socalled dollar shortage through other sources, the future of these exports will be decisively determined by the continued flow of American aid. That flow is now on the downgrade, while agricultural production abroad is rising. We are, therefore, faced with a general situation which foreshadows a decline in foreign demand, especially in the more distant future. The value of United States agricultural exports is likely to continue high in 1949-50 and 1950-51, but in all probability will be lower than in 1948-49.

This is the proposition that will be developed in the following remarks. Before we go into the matter, however, we should remember that, in any attempt at prediction the economist today must contend with the inception and operation of policies which are, to some extent and over a period of time, autonomous factors in determining economic developments. Economic analysis alone cannot predict the behavior of governments in these respects. All it can do is reveal some of the economic forces that have a bearing upon such measures. However, the policies and actions of governments and individuals are not altogether arbitrary, at least not in that part of the world which pursues economic activity to economic and social ends. In the long run, policies and actions tend to follow the dictates of the hard facts and circumstances with which they must cope. Our crystal-gazing may, therefore, be made somewhat less speculative and haphazard if we try to appraise some of these facts and circumstances.

Total dollar expenditure by foreign countries in the United States depends on the supply of dollars or gold that they can and are willing to draw upon. It is true that not all of this expenditure goes for purchases in the United States since there are some other areas where buying is also done against dollars or gold. However, unless these areas accumulate dollar balances or gold, such funds will indirectly flow into this country as immediately effective buying power. Dollar disbursements by foreign countries which end up in accumulation of gold or dollar balances by other foreign countries may be regarded as constant.

If we assume this, it will be seen that the foreign buying power for American goods and services during the next 18 months may be exptected to continue at the same rate, as, say, in the past year, plus or minus any

changes in dollar earnings abroad, or any changes in disbursements from dollar loans or grants to foreign countries, or any changes in the liquidation for dollars of foreign assets or of gold.

With respect to the liquidation for dollars of gold or foreign assets, it is probable that the rate of such liquidation in the next 18 months will decline. Since the war these assets have been drawn down considerably and what remains does not allow of much further liquidation. Disbursements from grants and loans by the United States in 1949-50 will still be above 1948-49 - at a rate declining through the year; in 1950-51 such disbursements will almost certainly be much below either 1948-49 or 1949-50. In this appraisal, consideration has been given not only to the declining appropriations under the European Recovery Program but also to the prospective level of any other loans or grants, by United States or international agencies, and to the inception of the military-aid program for Western Europe. While disbursements under the latter program will mainly be for military equipment additional to previous dollar procurement of such supplies, it may release a small amount of other dollar purchasing power for civilian purposes.

As to the dollar earnings by foreign nations, the opinion of competent experts leans toward the assumption that they will not increase in the near future, even though the recent devaluations will make foreign services and manufactured goods more competitive than they otherwise would be. In any case, if there were to be an increase in dollar earnings it will most probably be slight. On the other hand, the devaluing countries' imports from the dollar area should be reduced - an effect of the devaluations that would at the same time represent the required net downward adjustment in the expenditure of dollar purchasing power needed to balance the accounts.

Smaller liquidation of gold and dollar assets and, later, also a net decline in the disbursements of dollar grants and loans, in no way balanced by larger dollar earnings - this, then, would seem to picture the outlook for the development of dollar purchasing power for United States exports of goods and services for civilian purposes. In other words, the gap that is thus likely to arise would necessarily have to be bridged by a reduction of foreign imports from the United States.

Barring a fundamental change in policies, our first general conclusion would thus be that the expenditure by foreign countries on imports from the United States in 1950 and 1951 will decline. There is nothing startling in this expectation. It could be altered only by the assumption of policies on the part of the United States as well as the rest of the world that are not likely to be adopted. One would be the continuance, to an unchanged or even increased extent, of United States grants and loans, be it directly or through the channels of international agencies and actions. If, however, the world is to make progress toward the presumed goal of eliminating the grave imbalance that now exists in international economic relations, the countries that at present rely so heavily

on foreign aid will have to take measures to become more nearly self-supporting. They can do this only by increasing their productivity or by lowering their standards of living. The recent currency devaluations prepare the way for steps in both directions. Both imply intensified competition for American producers - within those countries, or in the United States, or in third markets; hence, they also imply larger general imports or reduced general exports by the United States, or both.

Descending from the general to the specific, it is at once clear that the difficulties in appraising the outlook multiply when we turn from a consideration of prospective foreign expenditures on American exports in general to expenditures on American agricultural exports in particular. Two things, however, follow directly from the premises previously discussed: First, that expenditure on the importation of United States agricultural products will operate within the framework of smaller total dollar expenditure. Second, if total foreign expenditure of dollars in United States markets declines, the products that are less necessary under a declining standard of living, or less necessary for increasing productivity, will have a relatively low priority. Conversely, the basic commodities, including agricultural, will be more prominently stressed in the purchases from the United States by countries which must retrench their general dollar expenditure. To some extent, and with respect to some commodities, priorities may be modified by special actions, as we shall see. But basically these priorities will be of great influence.

In considering the specific outlook for foreign expenditure on agricultural commodities from the United States let us be quite clear about the anomalous character of the great expansion in American agricultural exports during and after the second World War. The anomaly, which may be seen both in the total volume of such exports and in their composition, is, of course, due to the effects and after-effects of the war. The total value of American agricultural exports in 1946-47 to 1948-49 was about $4\frac{1}{2}$ times the average 1930-31 to 1938-39; the volume of these exports, measured by a quantity index that eliminates the change in prices, was up by about 50 percent. At the same time that increase was most unevenly distributed. Exports of tobacco after the war were somewhat above the prewar average; exports of fruits were three-fourths of prewar; cotton only one-half to two-thirds. On the other hand, exports of wheat and flour had risen to an average of 450 million bushels - or over 6 times the 1930-38 average and $2\frac{1}{2}$ times the average of United States exports in the five years ending 1930-31. A substantial increase also took place in United States exports of grains other than wheat, of oilseeds, vegetable oils, lard, and dairy products. The determing influence of the effects of the war and its aftermath is quite obvious from these developments.

The increase in United States shipments of grain, fats and oils, oilseeds, and dairy products is, as we all know, due to the wartime and postwar declines in production and export supplies in Europe and the Far East. Some of these declines must be viewed as a passing phase. Others are

likely to persist: it is probable, for example, that export supplies of rice and fats from the former Far Eastern export territories will remain below prewar; or that grain surpluses from eastern Europe will not regain their prewar importance. With respect to cotton, some of the foreign exporters who during the war reduced their cotton output in favor of food crops are likely to recapture part of their former position. Moreover, the dollar shortage favors cotton growing in colonial areas and elsewhere in the trading community of the soft-currency countries. Partly due to the same factor, synthetic fibers are rapidly gaining ground. In view of the dollar shortage, the prospect for exports of fruits would be definitely unfavorable, were it not for special measures in their behalf. Tobacco exports may be hoped to hold their own at present higher-than-prewar levels. Later they may recede to prewar quantities. In any case, they will be measurably below the high exports of the first two postwar seasons.

This general picture of the position of our agricultural exports after the war and a more detailed review of the factors that influenced the situation for individual commodities suggests the conclusion that the developments and conditions which have boosted our exports of some products are largely of a temporary nature; while those developments and conditions that have reduced our exports of other products, or make further reductions probable, bear a more permanent character.

As the production of cereals in Europe and the Far East recovers further in the next several years, import requirements of these deficit areas will decline from the abnormally high levels of recent years. There should also be somewhat greater supplies from those areas which used to have larger export surpluses before the war - Argentina and eastern Europe since the whole situation exerts strong pressure toward greater exchange of western Europe's industrial items for foodstuffs and feedstuffs of these surplus regions. Such developments will tend toward a gradual reduction in the requirement for grain from the United States.

It is unlikely, however, that these influences will lower drastically the exports of grain from the United States during the current or the next fiscal year. First, the increase in production in the deficit countries will be slow and in some areas consumption is still likely to increase with the increase in production. Even when western Europe reaches a per capita production equal to that before the war, imports - about one-third of consumption - will still have to be larger than before the war, if consumption by the increased population is to be at the prewar per capita level. Second, it is improbable that export supplies from eastern Europe and from Far Eastern export areas will rapidly reach their prewar volume - possibly they never will. Japan and India will continue to depend on large imports from outside the Far Eastern area. It is, therefore, probable that with the high priority that grain imports have in the deficit countries - export sales of United States wheat and grain in general will continue on a large scale during 1949-50 and 1950-51, though probably at declining rates and below the record shipments of 1948-49. In a longer period ahead

United States exports of grain will probably decline further but are likely to remain substantially above the small exports before the war.

Fats and oils continue to be in short supply in Europe and over most of the Far East. The increasing European output cannot keep pace with demands for larger supplies for consumption. Even at the end of the ECA period, western Europe expects to import more of these essential commodities than it takes at the present time. It is not unlikely, therefore, that for some time to come import buying by the deficit areas will continue at least at the present rate. Among all foodstuffs, fats together with cereals will have the highest priority on dollar expenditure by the deficit countries. However, since local production as well as availabilities from soft-currency sources are on the increase, since stocks have been somewhat replenished in the past year or so, and since hard-currency funds must be carefully husbanded, it is probable that these countries will continue to show caution and selectivity in their purchases. Furthermore, European demand definitely favors oilseeds in preference to fats and oils as such which will be of some influence in the direct export demand for American lard. Exports from the United States in 1950 of all fats and oils, including oilseeds, taken together, should not differ greatly from the elevated level of 1949, although they will probably be somewhat below that record year.

The position of cotton exports at this time is particularly interesting, and to understand it we should perhaps recall the situation between the wars. Total imports of raw cotton by all importing countries in the second half of the 1930's were about the same as imports in the first half. Takings from the United States in the latter half were displaced, to the extent of almost one-third, by larger supplies from Latin America - notably Brazil - and Colonial Africa, and to some extent Egypt and India. During the first four postwar seasons, taken as a whole, the United States suffered a further set-back in its cotton export position which reduced exports to two-thirds of the 1934-38 average. This decline, however, was due to the lower level of world imports of raw cotton which also stood at about two-thirds of 1934-38 imports. Cotton exports from India and Pakistan, because of the basic decline in production concurrently with an expansion of mill consumption, fell to one-third of their prewar level. Exports from Egypt, where production during the war was also greatly reduced, likewise were below prewar. On the other hand, cotton exports from Latin America and Colonial Africa stood about at or above prewar. Although relative prices accounted partly for this situation it is also characteristic of the extent to which exports in these areas - largely from stocks that had accumulated - were favored by the dollar shortage of importing countries. Equally significant with respect to the effects of the dollar supply is the upsurge, in 1948-49, of American cotton exports, with the inception of U. S. dollar aid under the European Recovery Program. In that season our exports rose to almost five million bales or little less than the 1934-38 average, even though total world imports of cotton remained 15 percent below prewar.

Mainly because of the relative scarcity of supplies from alternative sources and the high priority of cotton in the dollar allocations by import-

ing countries, the outlook is for continuance of relatively large exports of United States cotton in 1949-50; it is improbable, however, that they will be maintained at the 1948-49 level.

Farther ahead the outlook for U. S. exports of raw cotton is by no means encouraging. The relative scarcity of supplies from non-dollar sources should lead to ultimate re-expansion of production in some of these areas where acreage and output are still reduced because of the previous shifts to other crops. In Ind larger textile consumption is to be based upon expansion of domestic cotton production; the country even hopes to enter the textile export market in Far Eastern areas. Plans are also under way to stimulate the production of cotton in Turkey and in the dependent overseas territories of Britain, France, Belgium and Portugal. There is a strong pressure on the dollar-shor countries generally to channel their purchases of raw cotton so far as possible to non-dollar areas. In such circumstances - and since the dollar shortage is likely to persist - the United States' position will be that of residual supplier. So far as is known European countries are doubtful whether they can import, by 1952, more than three-fourths of the 4 million bales that they imported in the last prewar years. They also think that their need for fiber supplies, coupled with their inability to import more from hard-currency areas, will make it necessary to more than double the share of domestically-produced synthetic fibers in their total fiber consumption. Prices of such fibers are already at a highly competitive level and expansion of productive capacity is underway.

There are, of course, also factors on the other side of the ledger such as the persistence of lower per capita consumption of textiles in Europ and the Far East which, coupled with the increases in population, sooner or later will call for larger raw material supplies. Furthermore, in some cotton producing countries industrialization has been pushed forward and has entailed a scarcity of farm labor which will act as a brake on the extent of re-expansion - as is the case in Brazil. Yet, on balance, it does not seem that these factors would make the longer-range outlook for United States cotton any brighter.

The general and the specific factors that operate on the outlook for <u>tobacco</u> seem to indicate that United States exports in 1950 will not differ greatly from those in 1949, despite the dollar shortage. From many points of view tobacco is considered quite an essential product and has a high consumer priority which import policies cannot altogether ignore. Stocks in many foreign countries are low in relation to requirements, and ECA financing is an important factor in the movement of exports. Over a longer period ahead, general economic developments abroad will greatly influence United States tobacco export prospects. Alternative sources of supply should gradually yield larger quantities, under some stimulation of production there by the dollar-short importing countries. With respect to imports into western Europe tentative plans are to reduce, by 1952-53, takings from the United States; although they may not fall below the prewar level they will probably be well below the high shipments in 1945-46 and 1946-47.

Within the framework of a smaller total dollar supply in the immediate future, fruits imported from hard-currency areas are liable to be classified as less essential items. Were it not for the special measures taken by the United States government to maintain and increase exports of both fresh and dried fruits, the outlook for 1949-50 and 1950-51 would be bad indeed. The export subsidy in effect from October 1, and special arrangements made with the United Kingdom and Canada have assured a substantial movement in 1949-50 of United States export supplies of fresh apples, pears, and dried fruits. Citrus exports will profit from the removal of restrictions in Canada. As to the more long-term tendencies inherent in the European economic situation it must not be overlooked that the European countries will make every effort to cover their most essential fruit import needs from export supplies within the area. Expansion of exports from Italy, and other soft-currency areas, for example, is most probable.

The United States position with respect to its foreign trade in dairy products continues to readjust itself in the direction of patterns for the prewar period. Further declines in exports are likely in 1950. Increases in foreign production have been substantial, and the dollar shortage - reflected in the recent devaluations which have made imports from the United States more expensive - is doing its part to reduce our trade.

In conclusion, let me return for a moment to the general theme with which I started. If we want to have a measure of the precarious foundation on which United States export trade rests, we may look at the composition of the total dollar supply that goes to buy these exports. In 1948-49 dollar earnings of foreign countries paid only for about two-thirds of our exports. The remaining third the United States has largely given away. A very great expansion of American imports and other expenditures abroad would, therefore, be necessary to balance the accounts if our exports in general were to be maintained at present levels. The United States is not by natural environment or geographic necessity forced to have more than a trickle of import trade. At the same time it is the world's most efficient industrial and agricultural producer. In such a position it seems altogether improbable that this country should in the near future be willing and able to expand its imports on a vast and unparalleled scale.

It is true that, while a "sufficient" increase in American imports is improbable, some increase over a longer period of time is likely and will contribute to relieving economic imbalance throughout the world. There should also be possibilities of encouraging travel abroad and expanding expenditure on other invisibles. Certainly we must see the problem and do our utmost to help foreign countries to earn more dollars so that they may be able to buy and so that a large volume of world trade may contribute to the welfare of all nations. But we must be under no illusion about the realities. With every increase in most types of imports, a vested producer interest must be adversely affected. And you know what happens when that happens. It is one thing to tell the other fellow that he should put

up with increased foreign competition right here in his accustomed home market; it is quite another if we are to acquiesce in such developments ourselves. I mention these circumstances not in a critical vein but in order to emphasize that the prospects for increasing imports must be appraised with a measure of realism. By and large, an increase in American imports does not depend upon the goodwill of the American people, but on economic, institutional, and political circumstances and social propensities, both in the United States and abroad, that are apt to change only slowly.

If we thus realize that a possible increase in United States imports and other expenditures abroad will neither rapidly nor fully alleviate the problem of imbalance in international economic relations, the alternative becomes clearly apparent: if exports are to be substantially maintained, United States aid to foreign countries through grants or loans will have to continue; or if grants and loans are to be reduced, exports will likewise decline. This, after all, is almost commonplace. But the sooner the position is thoroughly understood and acted upon, the better will it be for the interest of the country. And the sooner will we all realize that each one of us has a stake in these big decisions of economic and political policy.